

# Napoleon Community Schools



Napoleon, Michigan

## FINANCIAL STATEMENTS

For The Year Ended  
June 30, 2008



**REHMANN ROBSON**

*Certified Public Accountants*

# NAPOLEON COMMUNITY SCHOOLS

For the Year Ended June 30, 2008

## TABLE OF CONTENTS

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	<u>PAGE</u>
Independent Auditors' Report .....	1-2
Management's Discussion and Analysis .....	3-10
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets .....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	17-19
Statement of Fiduciary Net Assets .....	20
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Funds .....	21
Notes to the Financial Statements.....	22-33
Combining and Individual Fund Financial Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds .....	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	35
Combining Balance Sheet – Nonmajor Special Revenue Funds .....	36
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds.....	37
Combining Balance Sheet – Nonmajor Debt Service Funds .....	38
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds.....	39
Combining Statement of Fiduciary Net Assets – Private Purpose Trust Funds .....	40
Combining Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Funds .....	41
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing     Standards</i> .....	42-43



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT**

November 14, 2008

Board of Education  
Napoleon Community Schools  
Napoleon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **NAPOLEON COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Napoleon Community Schools, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008, on our consideration of Napoleon Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Napoleon Community Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## MANAGEMENT'S DISCUSSION and ANALYSIS

# **NAPOLEON COMMUNITY SCHOOLS**

## **Management's Discussion and Analysis**

As management of Napoleon Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year that ended June 30, 2008.

### **Financial Highlights**

- ✓ The assets of the District exceeded its liabilities at the close of the fiscal year by \$5,085,315 (net assets). Of this amount, \$1,244,960 (unrestricted net assets) may be used to meet the government's ongoing obligations for district programs.
- ✓ The governments total net assets decreased by \$94,374.
- ✓ As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,537,475, a decrease of \$80,856 in comparison with the prior year. Approximately 94% or \$1,451,782 is available for spending at the government's discretion (unreserved fund balance).
- ✓ At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,249,231 or 10.0% of total general fund expenditures.
- ✓ Investments for the future were made by the spending of approximately \$29,133 on school improvements and equipment.

### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements compromise three components:

1. *Government-Wide Financial Statements*
2. *Fund Financial Statements*
3. *Notes to the Financial Statements*

This report also contains other supplementary information in addition to the basic financial statements.

### ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, support services, food services, athletics, and community service. The District has no business-type activities as of and for the year ending June 30, 2008.

The District-wide financial statements can be found on pages 11-12 of this report.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into *two* categories: *governmental funds* and *fiduciary funds*.

***Governmental Funds:*** *Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.*

*Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may better understand the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.*

*The District maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of fund revenues, expenditures, and changes in fund balances for the General Fund, which is the District's only major fund. Data from the six other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.*

*The District adopts an annual appropriated budget for its General and Special Revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with the General Fund budget.*

*The basic governmental fund financial statements can be found on pages 13-19 of this report.*

***Fiduciary Funds:*** *Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.*

*The basic fiduciary fund financial statements can be found on pages 20-21 of the report.*

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-33 of this report.

### ***Other Information***

The combining statements, referred to earlier, in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 34-41 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5,085,315 at the close of the most recent fiscal year.

The most significant portion of the District's net assets (73%) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



## District's Net Assets

	<b><u>Governmental Activities</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Current and Other Assets	\$ 4,908,963	\$ 4,801,769
Capital Assets, Net	<u>11,241,529</u>	<u>11,592,758</u>
<i>Total Assets</i>	<u>16,150,492</u>	<u>16,394,527</u>
Current Liabilities Outstanding	3,438,890	3,238,454
Other Liabilities	<u>7,626,287</u>	<u>7,976,384</u>
<i>Total Liabilities</i>	<u>11,065,177</u>	<u>11,214,838</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	3,730,323	3,879,992
Restricted	110,032	201,473
Unrestricted	<u>1,244,960</u>	<u>1,098,224</u>
<i>Total Net Assets</i>	<u><b>\$ 5,085,315</b></u>	<u><b>\$ 5,179,689</b></u>

An additional portion of the District's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (25% or \$1,244,960) may be used to meet the government's ongoing obligations to its programs.

At the end of the current fiscal year, the District was able to report positive balances in the three categories of net assets.

The results of this year's operation for the District as a whole are reported in the statement of activities, which shows the changes in net assets for the fiscal year 2008.

## District's Changes in Net Assets

	<u><b>Governmental Activities</b></u>	
	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>Revenue:</b>		
Program Revenue:		
Charges for Services	\$ 571,507	\$ 634,367
Operating Grants & Contributions	1,421,325	1,480,863
Capital Grants & Contributions	32,000	-
General Revenue:		
Property Taxes	2,010,751	2,045,647
State School Aid	10,053,285	10,256,048
Grants and contributions not restricted to specific programs	85,523	40,389
Other	<u>101,704</u>	<u>114,086</u>
<b>Total Revenue</b>	<u><b>14,276,095</b></u>	<u><b>14,571,400</b></u>
<b>Expenses:</b>		
Instruction	8,105,897	8,024,569
Support Services	4,164,472	4,407,644
Community Service	294,573	348,654
Athletics	302,233	295,047
Food Service	492,128	421,642
Interest on Long-Term Debt	598,804	578,758
Depreciation – unallocated	<u>412,362</u>	<u>548,989</u>
<b>Total Expenses</b>	<u><b>14,370,469</b></u>	<u><b>14,625,303</b></u>
<b>Increase (Decrease) in Net Assets</b>	<b>(94,374)</b>	<b>(53,903)</b>
Net Assets Beginning of Fiscal Year	<u>5,179,689</u>	<u>5,233,592</u>
<b>Net Assets, End of Fiscal Year</b>	<u><b>\$ 5,085,315</b></u>	<u><b>\$ 5,179,689</b></u>

### Governmental Activities

Net assets decreased approximately \$94,374. The key elements of this decrease are as follows:

- ✓ Depreciation in excess of capital outlay for the year
- ✓ Interest on long-term debt

## **Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

*Governmental funds:* The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,537,475 a decrease of \$80,856 in comparison with the prior year. Approximately 94% of this total amount (\$1.45 million) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that is not available for new spending because the underlying assets are included in the inventory and prepaid items, and is not available for current expenditures.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,249,231 while the total fund balance was \$1,331,444. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 10.0% and 10.7% of total general fund expenditures.

The fund balance of the District's general fund increased by \$11,151 during the current fiscal year.

## **General Fund Budgetary Highlights**

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A statement showing the District's original and final budget amounts compared with amounts actually paid and received is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the school's fiscal year and the final amended budget is adopted at the end of the fiscal year. The difference between the two relates to adjustments made in salaries, benefits, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

## Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$11,241,529 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, library books, and equipment.

The major capital asset events during the fiscal year were the following:

- ✓ Technology upgrades of \$25,873; consisting primarily of new computers and monitors.
- ✓ Replacement of \$2,880 in school furnishings consisting of classroom furniture
- ✓ Additional audio-visual equipment, \$380.
- ✓ Donation of the baseball/softball batting facility located at the Athletic Complex: \$32,000.

### District's Capital Assets

(net of depreciation)

	<u>2008</u>	<u>2007</u>
Land	\$ 2,080,800	\$ 2,080,800
Library Books	-	-
Buildings	8,588,610	8,832,171
Vehicles	66,733	94,632
Equipment	<u>505,386</u>	<u>585,155</u>
<b>Total Capital Assets</b>	<b><u>\$11,241,529</u></b>	<b><u>\$11,592,758</u></b>

Additional information on the District's capital assets can be found on page 29 of this report.

### Long-Term Debt

At the end of the current fiscal year, the District had total bonded debt outstanding of \$7,815,107.

Additional information on the District's long-term debt can be found on pages 30-31 of this report.

**Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2008-2009 fiscal year:

- ✓ The foundation allowance will increase to \$7,304 per student
- ✓ Reduction in District-wide expenditures
- ✓ Reduction in the professional staff
- ✓ Student enrollment is anticipated to decrease 1.5%
- ✓ An anticipated increase of 5% in health insurance costs
- ✓ A 2% increase in employee salaries and wages
- ✓ A 0.18 point decrease in retirement costs
- ✓ Planned use of the fund balance

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, P.O. Box 308, Napoleon, MI 49261.

## BASIC FINANCIAL STATEMENTS

## DISTRICT-WIDE FINANCIAL STATEMENTS

# **NAPOLEON COMMUNITY SCHOOLS**

## **Statement of Net Assets**

**June 30, 2008**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,798,319
Receivables	2,024,951
Prepaid items and other assets	85,693
Capital assets, not being depreciated	2,080,800
Capital assets being depreciated, net	9,160,729
<b>Total assets</b>	<b>16,150,492</b>
<b>Liabilities</b>	
Accounts payable, accrued liabilities and notes payable	3,359,185
Unearned revenue	79,705
Long-term debt:	
Due within one year	222,715
Due in more than one year	7,403,572
<b>Total liabilities</b>	<b>11,065,177</b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	3,730,323
Restricted for:	
Athletics, food and community services	110,032
Unrestricted	1,244,960
<b>Total net assets</b>	<b>\$ 5,085,315</b>

The accompanying notes are an integral part of these financial statements.



**NAPOLEON COMMUNITY SCHOOLS**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
Governmental activities:					
Instruction	\$ 8,105,897	\$ -	\$ 1,077,731	\$ -	\$ (7,028,166)
Supporting services	4,164,472	-	72,312	-	(4,092,160)
Community service	294,573	277,444	11,493	-	(5,636)
Athletics	302,233	41,804	10,456	32,000	(217,973)
Food service	492,128	252,259	232,912	-	(6,957)
Interest on long-term debt	598,804	-	16,421	-	(582,383)
Unallocated depreciation	412,362	-	-	-	(412,362)
<b>Total</b>	<b>\$ 14,370,469</b>	<b>\$ 571,507</b>	<b>\$ 1,421,325</b>	<b>\$ 32,000</b>	<b>(12,345,637)</b>

General revenues:	
Property taxes	2,010,751
Unrestricted state aid	10,053,285
Grants and contributions not restricted to specific programs	85,523
Unrestricted investment earnings	101,704
<b>Total general revenues</b>	<b>12,251,263</b>
 Change in net assets	 (94,374)
 Net assets, beginning of year	 5,179,689
 <b>Net assets, end of year</b>	 <b>\$ 5,085,315</b>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# NAPOLEON COMMUNITY SCHOOLS

## Balance Sheet Governmental Funds June 30, 2008

<u>ASSETS</u>	<u>General</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,567,442	\$ 230,877	\$ 2,798,319
Receivables	1,991,551	33,400	2,024,951
Inventory	61,115	1,683	62,798
Prepaid expenditures	21,098	1,797	22,895
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 4,641,206</u></b>	<b><u>\$ 267,757</u></b>	<b><u>\$ 4,908,963</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 165,014	\$ 2,766	\$ 167,780
Salaries and retirement payable	1,017,363	25,560	1,042,923
State aid note payable	2,047,680	-	2,047,680
Deferred revenue	79,705	33,400	113,105
	<hr/>	<hr/>	<hr/>
Total liabilities	3,309,762	61,726	3,371,488
	<hr/>	<hr/>	<hr/>
<b>Fund balances</b>			
Reserved for:			
Inventory	61,115	1,683	62,798
Prepaid expenditures	21,098	1,797	22,895
Unreserved:			
Undesignated	1,249,231	-	1,249,231
Undesignated, reported in nonmajor:			
Special revenue funds	-	106,552	106,552
Debt service funds	-	95,999	95,999
	<hr/>	<hr/>	<hr/>
Total fund balances	1,331,444	206,031	1,537,475
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 4,641,206</u></b>	<b><u>\$ 267,757</u></b>	<b><u>\$ 4,908,963</u></b>

The accompanying notes are an integral part of these financial statements.

**NAPOLEON COMMUNITY SCHOOLS**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2008**

Fund balances - total governmental funds	\$ 1,537,475
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets, net of accumulated depreciation	11,241,529
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred receivable	33,400
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: unamortized premium related to bond issuance	(364,289)
Deduct: bonds and installment loans payable	(7,826,517)
Add: unamortized deferred bond cost on refunding	646,200
Deduct: accrued interest on bonds payable	(100,802)
Deduct: compensated absences	(81,681)
	(81,681)

Net assets of governmental activities	\$ 5,085,315
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The accompanying notes are an integral part of these financial statements.

**NAPOLEON COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
<b>Revenue</b>			
Local sources:			
Taxes	\$ 1,333,262	\$ 677,489	\$ 2,010,751
Earnings on investments	91,566	16,421	107,987
Transfers from other governments	556,812	-	556,812
Athletics	-	256,123	256,123
Food service	-	52,838	52,838
Other local revenues	70,700	296,017	366,717
State sources	10,517,817	25,606	10,543,423
Federal sources	151,671	205,922	357,593
	<u>12,721,828</u>	<u>1,530,416</u>	<u>14,252,244</u>
Total revenue			
<b>Expenditures</b>			
Current:			
Education:			
Instruction	8,254,141	-	8,254,141
Supporting services	4,179,075	-	4,179,075
Transfers to other districts	14,823	-	14,823
Athletics	-	302,233	302,233
Food service	-	492,128	492,128
Community services	-	294,573	294,573
Debt service:			
Principal repayment	11,152	208,028	219,180
Interest and fiscal charges	607	575,368	575,975
Other	-	972	972
	<u>12,459,798</u>	<u>1,873,302</u>	<u>14,333,100</u>
Total expenditures			
Revenue over (under) expenditures	<u>262,030</u>	<u>(342,886)</u>	<u>(80,856)</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	250,879	250,879
Transfers out	(250,879)	-	(250,879)
	<u>(250,879)</u>	<u>250,879</u>	<u>-</u>
Total other financing sources (uses)			
Net change in fund balances	11,151	(92,007)	(80,856)
Fund balances, beginning of year	<u>1,320,293</u>	<u>298,038</u>	<u>1,618,331</u>
<b>Fund balances, end of year</b>	<u><u>\$ 1,331,444</u></u>	<u><u>\$ 206,031</u></u>	<u><u>\$ 1,537,475</u></u>

The accompanying notes are an integral part of these financial statements.

**NAPOLEON COMMUNITY SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds	\$ (80,856)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	29,133
Add: donations of capital assets	32,000
Deduct: depreciation expense	(405,146)
Deduct: loss on disposal of capital assets	(7,216)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on long-term receivables	(8,149)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	219,180
Add: amortization of premium on bond refunding	22,768
Deduct: amortization of loss on bond refunding	(40,388)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds	(4,237)
Add: decrease in retirement incentive payable	149,994
Deduct: increase in the accrual for compensated absences	(1,457)

Change in net assets of governmental activities	\$ <u>(94,374)</u>
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The accompanying notes are an integral part of these financial statements.

**NAPOLEON COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenue</b>				
Local sources:				
Property taxes	\$ 1,272,797	\$ 1,334,353	\$ 1,333,262	\$ (1,091)
Earnings on investments and deposits	80,000	85,000	91,566	6,566
Other local revenues	12,500	54,385	70,700	16,315
Total revenue from local sources	<u>1,365,297</u>	<u>1,473,738</u>	<u>1,495,528</u>	<u>21,790</u>
State sources:				
State school aid - unrestricted	9,936,696	10,039,600	10,053,285	13,685
At risk	158,232	172,520	153,759	(18,761)
Durant settlement	8,149	8,149	8,149	-
Other	342,607	338,452	302,624	(35,828)
Total revenue from state sources	<u>10,445,684</u>	<u>10,558,721</u>	<u>10,517,817</u>	<u>(40,904)</u>
Federal sources:				
Title I	105,134	127,670	115,352	(12,318)
Title II-A	28,235	37,549	33,938	(3,611)
Title II-D	1,081	1,920	1,808	(112)
Title V	338	674	573	(101)
Total revenue from federal sources	<u>134,788</u>	<u>167,813</u>	<u>151,671</u>	<u>(16,142)</u>
Other revenue:				
Special education - Intermediate	540,000	483,085	483,096	11
Data processing - Intermediate	27,000	30,000	35,993	5,993
Other grants	35,200	34,900	37,723	2,823
Total other revenue	<u>602,200</u>	<u>547,985</u>	<u>556,812</u>	<u>8,827</u>
Total revenue	<u>12,547,969</u>	<u>12,748,257</u>	<u>12,721,828</u>	<u>(26,429)</u>

continued...

**NAPOLEON COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Continued)**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Expenditures</b>				
Instruction:				
Basic programs:				
Elementary	\$ 2,690,259	\$ 2,784,791	\$ 2,769,566	\$ (15,225)
Middle school	1,724,618	1,796,320	1,759,106	(37,214)
High school	2,290,474	2,284,406	2,273,144	(11,262)
Michigan School Readiness	23,100	23,800	23,800	-
Alternative education	168,956	164,953	145,773	(19,180)
Added Needs:				
Special education	978,407	990,126	954,453	(35,673)
At Risk	293,020	340,333	305,399	(34,934)
Career/tech prep	23,000	22,900	22,900	-
Total instruction	<u>8,191,834</u>	<u>8,407,629</u>	<u>8,254,141</u>	<u>(153,488)</u>
Supporting Services:				
Guidance services	223,127	224,067	219,792	(4,275)
Instructional staff	47,897	42,498	40,823	(1,675)
Library	267,861	265,083	262,508	(2,575)
Technology and media	222,332	273,037	251,283	(21,754)
General administration:				
Board of education	14,040	11,540	9,764	(1,776)
Executive administration	440,857	414,552	406,096	(8,456)
School administration	993,071	1,019,151	1,004,733	(14,418)
Business services	378,827	336,258	338,840	2,582
Operations and maintenance	1,087,078	1,074,495	1,043,877	(30,618)
Pupil transportation	634,966	634,065	601,359	(32,706)
Total supporting services	<u>4,310,056</u>	<u>4,294,746</u>	<u>4,179,075</u>	<u>(115,671)</u>
Transfers to other districts	<u>12,000</u>	<u>12,000</u>	<u>14,823</u>	<u>2,823</u>

continued...



**NAPOLEON COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
Debt service:				
Principal repayment	\$ 11,393	\$ 11,393	\$ 11,152	\$ (241)
Interest and fiscal charges	607	607	607	-
Total debt service	<u>12,000</u>	<u>12,000</u>	<u>11,759</u>	<u>(241)</u>
 Total expenditures	 <u>12,525,890</u>	 <u>12,726,375</u>	 <u>12,459,798</u>	 <u>(266,577)</u>
 Revenue over expenditures	 <u>22,079</u>	 <u>21,882</u>	 <u>262,030</u>	 <u>240,148</u>
<b>Other financing (uses)</b>				
Transfers out to other funds:				
Athletics fund	(245,462)	(244,087)	(250,879)	6,792
Food service fund	<u>(20,237)</u>	<u>(25,605)</u>	<u>-</u>	<u>(25,605)</u>
Total other financing (uses)	<u>(265,699)</u>	<u>(269,692)</u>	<u>(250,879)</u>	<u>(18,813)</u>
 Net change in fund balances	 (243,620)	 (247,810)	 11,151	 258,961
 Fund balance, beginning of year	 <u>1,320,293</u>	 <u>1,320,293</u>	 <u>1,320,293</u>	 <u>-</u>
 <b>Fund balance, end of year</b>	 <u><u>\$ 1,076,673</u></u>	 <u><u>\$ 1,072,483</u></u>	 <u><u>\$ 1,331,444</u></u>	 <u><u>\$ 258,961</u></u>

The accompanying notes are an integral part of these financial statements.

# **NAPOLEON COMMUNITY SCHOOLS**

## **Statement of Fiduciary Net Assets**

### **All Fiduciary Funds**

**June 30, 2008**

	<b>Private Purpose Trust Funds</b>	<b>Agency Fund</b>
	<hr/>	<hr/>
<b>Assets</b>		
Cash and cash equivalents	\$ 93,064	\$ 94,357
Accounts receivable	960	-
	<hr/>	<hr/>
<b>Total assets</b>	<hr/> 94,024 <hr/>	<hr/> 94,357 <hr/>
<b>Liabilities</b>		
Due to student groups and activities	-	\$ 94,357
	<hr/>	<hr/> <hr/>
<b>Net assets</b>		
Unrestricted	<hr/> \$ 94,024 <hr/>	

The accompanying notes are an integral part of these financial statements.

**NAPOLEON COMMUNITY SCHOOLS**  
**Statement of Changes in Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**For the Year Ended June 30, 2008**

**Revenue**

Local sources:

Earnings on investments	\$ 4,116
Contributions	<u>2,400</u>

Total revenue	6,516
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**Expenses**

Scholarships	<u>15,800</u>
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Change in net assets	(9,284)
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Net assets, beginning of year	<u>103,308</u>
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<b>Net assets, end of year</b>	<u><u>\$ 94,024</u></u>
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The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Napoleon Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *special revenue funds* account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for food service, athletics, and community service activities.

The *debt service funds* account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The *private purpose trust funds* account for contributions earmarked for scholarships available to qualifying students of the District.

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

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The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and equity**

#### **1. Cash and cash equivalents/investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

#### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2008.

#### **3. Inventory and prepaid items**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Special Revenue Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### **4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Library books	10
Buildings and improvements	45
Equipment and furniture	5-20
Vehicles	5-10

### 5. *Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused sick days. The amount is based on years of service and the number of sick days accumulated. The employee must be employed by the District for 10 years and retire under the Michigan Public School Employees Retirement System to receive their payout.

### 6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs and immaterial bond discounts, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.



# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

#### B. Excess of expenditures over appropriation

During the year ended June 30, 2008, Business services and transfers to other districts expenditures in the General Fund exceeded appropriations by \$2,582 and \$2,823, respectively.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

##### Statement of Net Assets:

Cash and cash equivalents	<u>\$ 2,798,319</u>
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##### Statement of Fiduciary Net Assets:

Private Purpose Trust Funds -	
Cash and cash equivalents	93,064

Agency Funds -	
Cash and cash equivalents	<u>94,357</u>

187,421

**\$ 2,985,740**

Bank deposits (checking accounts, savings	
accounts and CDs)	\$ 2,985,615

Cash on hand	<u>125</u>
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**\$ 2,985,740**

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### Statutory Authority

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District has no investments at June 30, 2008.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District has no investments at June 30, 2008.

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,852,565 of the District's bank balance of \$3,052,565 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. The District has no investments at June 30, 2008.

### B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amount Not Expected to be Collected Within One Year</u>
<b>Receivables:</b>				
Accounts	\$ 1,517	\$ -	\$ 1,517	\$ -
Intergovernmental	1,990,034	-	1,990,034	-
Durant settlement	<u>-</u>	<u>33,400</u>	<u>33,400</u>	<u>28,865</u>
	<u><b>\$ 1,991,551</b></u>	<u><b>\$ 33,400</b></u>	<u><b>\$ 2,024,951</b></u>	<u><b>\$ 28,865</b></u>

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 2,080,800	\$ -	\$ -	\$ 2,080,800
Capital assets, being depreciated:				
Library books	635,830	-	-	635,830
Buildings & improvements	14,400,720	32,000	-	14,432,720
Equipment & furniture	3,982,733	29,133	(82,568)	3,929,298
Vehicles	936,438	-	-	936,438
Total capital assets being depreciated	<u>19,955,721</u>	<u>61,133</u>	<u>(82,568)</u>	<u>19,934,286</u>
Less accumulated depreciation for:				
Library books	(635,830)	-	-	(635,830)
Buildings & improvements	(5,568,549)	(275,561)	-	(5,844,110)
Equipment & furniture	(3,397,578)	(101,686)	75,352	(3,423,912)
Vehicles	(841,806)	(27,899)	-	(869,705)
Total accumulated depreciation	<u>(10,443,763)</u>	<u>(405,146)</u>	<u>75,352</u>	<u>(10,773,557)</u>
Total capital assets being depreciated, net	<u>9,511,958</u>	<u>(344,013)</u>	<u>(7,216)</u>	<u>9,160,729</u>
<b>Capital assets, net</b>	<u><b>\$ 11,592,758</b></u>	<u><b>\$ (344,013)</b></u>	<u><b>\$ (7,216)</b></u>	<u><b>\$ 11,241,529</b></u>

Depreciation expense of \$405,146 and the loss on disposal of capital assets of \$7,216 were charged to the function "unallocated depreciation", and were not allocated to other functions.

### D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 165,014	\$ 2,766	\$ 167,780
Salaries and retirement payable	1,017,363	25,560	1,042,923
State aid note payable	<u>2,047,680</u>	<u>-</u>	<u>2,047,680</u>
	<u><b>\$3,230,057</b></u>	<u><b>\$ 28,326</b></u>	<u><b>3,258,383</b></u>
<b>District-Wide Financial Statements:</b>			
Accrued interest on long-term debt			<u>100,802</u>
			<u><b>\$ 3,359,185</b></u>

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

### E. Interfund transfers

For the year ended June 30, 2008, the General Fund transferred \$250,879 to nonmajor governmental funds to subsidize the athletics programs.

### F. Long-term debt

At the end of the current fiscal year, the District had total debt outstanding of \$7,826,517 consisting of \$7,815,107 in bonded indebtedness and \$11,410 in debt from an installment purchase agreement. Of the bonded indebtedness, \$33,400 represents the Durant Bonds, which are not a general obligation of the District and do not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan. Remaining payments for all bonded indebtedness vary from \$703,500 to \$884,722 through 2024, and include interest at 2.5-7.024%. Remaining payments for the installment purchase agreement are \$11,759 per year through 2009, including interest at 2.69%.

Annual debt service requirements to maturity for installment debt are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 215,715	\$ 604,341	\$ 820,056
2010	200,673	637,869	838,542
2011	183,823	662,300	846,123
2012	171,454	693,793	865,247
2013	154,852	729,870	884,722
2014-2018	2,915,000	1,428,150	4,343,150
2019-2023	3,315,000	667,250	3,982,250
2024	670,000	33,500	703,500
	<b>\$ 7,826,517</b>	<b>\$ 5,457,073</b>	<b>\$ 13,283,590</b>

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2008, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
Bonds payable:					
1994 general obligation refunding bonds	\$ 934,735	\$ -	\$ 163,028	\$ 771,707	\$ 159,770
2005 general obligation refunding bonds	7,055,000	-	45,000	7,010,000	40,000
1998 bonds - non-plaintiff durant	33,400	-	-	33,400	4,535
Installment purchase agreement	22,562	-	11,152	11,410	11,410
Subtotal - installment debt	8,045,697	-	219,180	7,826,517	215,715
Unamortized bond premium	387,057	-	22,768	364,289	-
Unamortized bond refunding loss	(686,588)	-	(40,388)	(646,200)	-
Retirement incentive obligations	149,994	-	149,994	-	-
Compensated absences	80,224	8,000	6,543	81,681	7,000
Total	<u>\$ 7,976,384</u>	<u>\$ 8,000</u>	<u>\$ 358,097</u>	<u>\$ 7,626,287</u>	<u>\$ 222,715</u>

Compensated absences and retirement incentive obligations are generally liquidated by the general fund.

### **G. State Aid Anticipation Note**

During the year, the District financed some of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. Short-term notes outstanding as of June 30, 2008, were comprised of the following:

#### **General Fund:**

State Aid Anticipation Note, interest at 3.68% due 8/20/08:

Beginning balance	\$ 1,866,240
Additions	2,047,680
Reductions	<u>1,866,240</u>
<b>Ending balance</b>	<b><u>\$ 2,047,680</u></b>

# NAPOLEON COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### IV. OTHER INFORMATION

#### A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by township governments whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

#### C. Defined benefit pension plan

##### Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

# **NAPOLEON COMMUNITY SCHOOLS**

## **Notes to the Financial Statements**

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### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. Napoleon Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and Napoleon Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$1,286,961, \$1,358,664, and \$1,204,313, respectively, equal to the required contributions for each year.

### **Other Postemployment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

\* \* \* \* \*



COMBINING and INDIVIDUAL FUND  
FINANCIAL STATEMENTS

**NAPOLEON COMMUNITY SCHOOLS**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

<u><b>ASSETS</b></u>	<u><b>Special Revenue</b></u>	<u><b>Debt Service</b></u>	<u><b>Totals</b></u>
<b>Assets</b>			
Cash and cash equivalents	\$ 134,878	\$ 95,999	\$ 230,877
Receivables	-	33,400	33,400
Inventory	1,683	-	1,683
Prepaid expenditures	1,797	-	1,797
	<u>1,797</u>	<u>-</u>	<u>1,797</u>
 <b><u>TOTAL ASSETS</u></b>	 <u>\$ 138,358</u>	 <u>\$ 129,399</u>	 <u>\$ 267,757</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,766	\$ -	\$ 2,766
Salaries and retirement payable	25,560	-	25,560
Deferred revenue	-	33,400	33,400
	<u>-</u>	<u>33,400</u>	<u>33,400</u>
Total liabilities	<u>28,326</u>	<u>33,400</u>	<u>61,726</u>
 <b>Fund balances</b>			
Reserved for:			
Inventory	1,683	-	1,683
Prepaid expenditures	1,797	-	1,797
Unreserved:			
Undesignated	106,552	95,999	202,551
	<u>106,552</u>	<u>95,999</u>	<u>202,551</u>
Total fund balances	<u>110,032</u>	<u>95,999</u>	<u>206,031</u>
 <b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	 <u>\$ 138,358</u>	 <u>\$ 129,399</u>	 <u>\$ 267,757</u>

**NAPOLEON COMMUNITY SCHOOLS**  
**Combining Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2008**

	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Totals</b>
<b>Revenue</b>			
Local sources:			
Taxes	\$ -	\$ 677,489	\$ 677,489
Earnings on investments	-	16,421	16,421
Food service	256,123	-	256,123
Athletics	52,838	-	52,838
Other local revenues	296,017	-	296,017
State sources	25,606	-	25,606
Federal sources	205,922	-	205,922
	<hr/>	<hr/>	<hr/>
Total revenue	836,506	693,910	1,530,416
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Current:			
Athletics	302,233	-	302,233
Food service	492,128	-	492,128
Community services	294,573	-	294,573
Debt service:			
Principal repayment	-	208,028	208,028
Interest and fiscal charges	-	575,368	575,368
Other	-	972	972
	<hr/>	<hr/>	<hr/>
Total expenditures	1,088,934	784,368	1,873,302
	<hr/>	<hr/>	<hr/>
Revenue under expenditures	(252,428)	(90,458)	(342,886)
	<hr/>	<hr/>	<hr/>
<b>Other financing sources</b>			
Transfers in	250,879	-	250,879
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(1,549)	(90,458)	(92,007)
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	111,581	186,457	298,038
	<hr/>	<hr/>	<hr/>
<b>Fund balances, end of year</b>	<u>\$ 110,032</u>	<u>\$ 95,999</u>	<u>\$ 206,031</u>

# NAPOLEON COMMUNITY SCHOOLS

## Nonmajor Special Revenue Funds

### Combining Balance Sheet

June 30, 2008

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 19,829	\$ 34,110	\$ 80,939	\$ 134,878
Inventory	-	927	756	1,683
Prepaid expenditures	-	1,165	632	1,797
	<u>-</u>	<u>1,165</u>	<u>632</u>	<u>1,797</u>
 <b><u>TOTAL ASSETS</u></b>	 <u>\$ 19,829</u>	 <u>\$ 36,202</u>	 <u>\$ 82,327</u>	 <u>\$ 138,358</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 1,108	\$ 1,658	\$ 2,766
Salaries and retirement payable	18,345	-	7,215	25,560
	<u>18,345</u>	<u>-</u>	<u>7,215</u>	<u>25,560</u>
 Total liabilities	 <u>18,345</u>	 <u>1,108</u>	 <u>8,873</u>	 <u>28,326</u>
 <b>Fund balances</b>				
Reserved for				
Inventory	-	927	756	1,683
Prepaid expenditures	-	1,165	632	1,797
Unreserved, undesignated	1,484	33,002	72,066	106,552
	<u>1,484</u>	<u>33,002</u>	<u>72,066</u>	<u>106,552</u>
 Total fund balances	 <u>1,484</u>	 <u>35,094</u>	 <u>73,454</u>	 <u>110,032</u>
 <b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	 <u>\$ 19,829</u>	 <u>\$ 36,202</u>	 <u>\$ 82,327</u>	 <u>\$ 138,358</u>

**NAPOLEON COMMUNITY SCHOOLS**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenue, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2008**

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
<b>Revenue</b>				
Local sources:				
Ticket sales	\$ 41,804	\$ -	\$ -	\$ 41,804
Food sales	-	252,071	-	252,071
Interest	578	2,480	7,080	10,138
Fees for services	-	-	277,444	277,444
Miscellaneous	10,456	1,572	11,493	23,521
Total revenue from local sources	52,838	256,123	296,017	604,978
State sources	-	25,606	-	25,606
Federal sources	-	205,922	-	205,922
Total revenue	52,838	487,651	296,017	836,506
<b>Expenditures</b>				
Athletics	302,233	-	-	302,233
Food service	-	492,128	-	492,128
Community services	-	-	294,573	294,573
Total expenditures	302,233	492,128	294,573	1,088,934
Revenue over (under) expenditures	(249,395)	(4,477)	1,444	(252,428)
<b>Other financing sources</b>				
Transfers in from other funds	250,879	-	-	250,879
Net change in fund balances	1,484	(4,477)	1,444	(1,549)
Fund balances, beginning of year	-	39,571	72,010	111,581
<b>Fund balances, end of year</b>	<u>\$ 1,484</u>	<u>\$ 35,094</u>	<u>\$ 73,454</u>	<u>\$ 110,032</u>

**NAPOLEON COMMUNITY SCHOOLS**  
**Nonmajor Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2008**

	<u>Durant Debt</u>	<u>1994 Debt</u>	<u>2005 Debt</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 47,917	\$ 48,082	\$ 95,999
Receivables	33,400	-	-	33,400
<b><u>TOTAL ASSETS</u></b>	<u>\$ 33,400</u>	<u>\$ 47,917</u>	<u>\$ 48,082</u>	<u>\$ 129,399</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Deferred revenue	\$ 33,400	\$ -	\$ -	\$ 33,400
<b>Fund balances</b>				
Unreserved, undesignated	-	47,917	48,082	95,999
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 33,400</u>	<u>\$ 47,917</u>	<u>\$ 48,082</u>	<u>\$ 129,399</u>

**NAPOLEON COMMUNITY SCHOOLS**  
**Nonmajor Debt Service Funds**  
**Combining Statement of Revenue, Expenditures and**  
**Changes in Fund Balances**  
**For the Year Ended June 30, 2008**

	<u>Durant Debt</u>	<u>1994 Debt</u>	<u>2005 Debt</u>	<u>Total</u>
<b>Revenue</b>				
Local sources:				
Property taxes	\$ -	\$ 311,667	\$ 365,822	\$ 677,489
Earnings on investments and deposits	-	11,094	5,327	16,421
	<u>-</u>	<u>322,761</u>	<u>371,149</u>	<u>693,910</u>
<b>Expenditures</b>				
Debt service:				
Principal	-	163,028	45,000	208,028
Interest	-	236,972	338,396	575,368
Other	-	473	499	972
	<u>-</u>	<u>400,473</u>	<u>383,895</u>	<u>784,368</u>
Total expenditures	-	400,473	383,895	784,368
Net change in fund balances	-	(77,712)	(12,746)	(90,458)
Fund balances, beginning of year	-	125,629	60,828	186,457
<b>Fund balances, end of year</b>	<u>\$ -</u>	<u>\$ 47,917</u>	<u>\$ 48,082</u>	<u>\$ 95,999</u>

**NAPOLEON COMMUNITY SCHOOLS**  
**Combining Statement of Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**June 30, 2008**

	<u>General Scholarships</u>	<u>Alden Scholarship</u>	<u>Totals</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 76,259	\$ 16,805	\$ 93,064
Accounts receivable	960	-	960
	<u>\$ 77,219</u>	<u>\$ 16,805</u>	<u>\$ 94,024</u>
 <b>Net assets</b>			
Unrestricted	<u>\$ 77,219</u>	<u>\$ 16,805</u>	<u>\$ 94,024</u>



**NAPOLEON COMMUNITY SCHOOLS**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**For the Year Ended June 30, 2008**

	<b>General Scholarships</b>	<b>Alden Scholarship</b>	<b>Totals</b>
<b>Revenue</b>			
Local sources:			
Earnings on investments	\$ 3,422	\$ 694	\$ 4,116
Contributions	2,400	-	2,400
	<hr/>	<hr/>	<hr/>
Total revenue	5,822	694	6,516
<b>Expenses</b>			
Scholarships	14,300	1,500	15,800
	<hr/>	<hr/>	<hr/>
Change in net assets	(8,478)	(806)	(9,284)
Net assets, beginning of year	85,697	17,611	103,308
	<hr/>	<hr/>	<hr/>
<b>Net assets, end of year</b>	<u><u>\$ 77,219</u></u>	<u><u>\$ 16,805</u></u>	<u><u>\$ 94,024</u></u>



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 14, 2008

Board of Education  
Napoleon Community Schools  
Napoleon, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **NAPOLEON COMMUNITY SCHOOLS** as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Napoleon Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

### **Finding 2008-1 Audit Adjustments**

**Criteria:** The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

**Condition:** Significant adjustments were necessary to properly record revenue and expenditures in the General Fund.

**Cause:** While internal controls did properly detect adjustments necessary to record year-end balances for balance sheet accounts, the correct revenue and expenditure accounts were not properly adjusted.

**Effect:** As a result of this condition, the District is not able to produce accurate financial information.

**View of  
Responsible**

**Officials:** The District will record all closing adjustments in the next and future fiscal years.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Napoleon Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Napoleon Community Schools in a separate letter dated November 14, 2008.

Napoleon Community Schools' response to the finding identified in our audit is described above. We did not audit the Napoleon Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



November 14, 2008

To the Board of Education  
Napoleon Community Schools  
Napoleon, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Napoleon Community Schools* (the “District”) for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the *District*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of *District's* compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter dated July 10, 2008.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the *District* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 14, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of *Napoleon Community Schools* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# **Napoleon Community Schools**

## **Comments and Recommendations**

**For the Year Ended June 30, 2008**

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In planning and performing our audit of the financial statements of the Napoleon Community Schools (the “District”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. The deficiency we noted that we consider to be a significant deficiency is described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

# **Napoleon Community Schools**

## **Comments and Recommendations (Concluded)**

**For the Year Ended June 30, 2008**

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### **Other Matters**

#### **Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the District's unique circumstances.

As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the District's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the District's internal control structure, and cannot not be relied upon as part of management's systems to deter or detect fraud and abuse.

As a result of this condition, the District lacks the proper segregation of duties, although they have taken steps to require additional independent reviews in certain areas. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.